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SUBJECT: Gazprom's Turkmenistan Contract Secure

Ref: A) 05 Ashgabat 673
B) 05 Ashgabat 905

Summary

¶1. (SBU) A December 12 visit to Turkmenistan by Gazprom Board Member Valeriy Golubev, a December 21 conversation with the local Gazprom representative, and statements by Turkmenistan's Acting President Gurbanguly Berdimuhamedov and Russian President Vladimir Putin after Niyazov's death, confirm that Gazprom's foreseeable future here remains secure. Questions persist regarding Turkmenistan's ability to deliver contracted volumes of gas to Gazprom through the existing pipeline network, but the sitting Government of Turkmenistan is publicly stressing that Niyazov's business contracts and arrangements in the oil and gas sectors will continue unaffected. End Summary.

December Gazprom Visit a Courtesy Call

¶2. (SBU) On December 21, 2006, Poloff met with the Deputy Director of Gazprom's Representative Office in Ashgabat, Sergey Toropin. Gazprom did not cancel the meeting despite the public announcement that morning of President Niyazov's death. This was Post's second meeting with Gazprom, the first having occurred on June 23, 2006 (ref A). Toropin confirmed that the main objective of the December 12 visit by Gazprom Board Member Valeriy Golubev was to present Golubev to Niyazov as the new person responsible for the Central Asian region. Golubev also came to congratulate the president on Neutrality Day. The parties did not discuss any changes to their existing contract, signed in September 2006, whereby Turkmenistan was to supply Russia a total of 162 billion cubic meters (bcm) of gas in calendar years 2006-2009.

Volume - Likely; Capacity - Maybe

¶3. (SBU) Gazprom is confident both that Turkmenistan can produce the contractually agreed-upon volume of gas and that the company can

physically receive and transport it through Russia's gas network. However, Toropin admitted, Turkmenistan's own gas transportation network was in "uncertain" shape. No national survey had been conducted to assess its current condition. During Golubev's meeting with Niyazov, the two parties discussed the possibility of rehabilitating the existing network and constructing, where necessary, new connections in Turkmenistan.

¶ 14. (SBU) Toropin was cautious when describing the capability of Turkmenistan's experts to conduct the necessary assessment. He simply said that this was a demanding workload that needed to be completed within a short time. Toropin noted that Gazprom was ready to consider assisting with the assessment, should Turkmenistan's authorities request it. Gazprom already had relevant agreements with Uzbekistan and Kazakhstan for gas transshipment through those countries' portions of the lines.

¶ 15. (SBU) With regard to Turkmenistan's specific sources, i.e., individual fields, of gas supplied to Russia, Toropin said Gazprom was not focusing on the issue. It was more important for the company to verify the overall volume of gas reaching the transfer points. However, to Gazprom's knowledge, several fields fed gas through the Central Asia-Center (CAC) mains (CAC-3 and CAC-4). The CAC-3, along the Caspian Sea, was in poor condition, according to Toropin. (Note: Burren Energy previously also reported this fact. Ref B. End Note). In light of recent discoveries of significant offshore gas reserves by Petronas and other companies, Niyazov had seemed keen on construction of a new transit route; he proposed a joint exploration of offshore fields to Gazprom, just as he had done to the visiting German Foreign Minister a few weeks earlier.

¶ 16. (SBU) Toropin called the Dovletabad field audit results a "commercial issue" for Turkmenistan, but said that Gazprom had a

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rough idea of reserves from the Soviet times, and that the announced Southern Yoloten reserves of 7 tcm sounded realistic. But, he added, these were not recoverable reserves, and all geological layers had not been studied. Gazprom's understanding was that most reserves lay at the lower depths, which would add to the cost of production. (NOTE: During his June 23 meeting with us, Toropin had said that any long-term cooperation in Turkmenistan should be based on an independent audit of gas reserves of Turkmenistan, not on the "very optimistic estimates of Turkmen geologists" (ref A). End Note.)

Global Perspective with Message to Russia

¶ 17. (SBU) Embassy notes that, during the joint press conference given by Russian President Putin and Ukrainian President Yushchenko in Kyiv on December 22, the question was asked whether Russia would be ready to deliver additional Russian-origin gas to Ukraine in the event that Niyazov's death led to delivery problems with Turkmenistan-supplied gas. Answering, Putin, for the first time that of which post is aware, referred to Gazprom's agreements with Turkmenistan as "agreements about delivering gas to Ukraine." Putin also noted that the price of \$135 to Ukraine, "is not Russia's price, this is Turkmenistan's price. Turkmenistan sold all its gas to Russia for \$100 per 1000 cubic meters. The cost of transport added to the overhead expenses results in the price you [Yushchenko] mentioned."

¶ 18. (SBU) Turkmenistan's state-controlled Watan TV news broadcast acting President Gurbanguly Berdimuhamedov on December 22 saying, "These days certain mass media publish false information to harm Turkmenistan's good relations with its partners in the oil and gas sector." Berdimuhamedov said Turkmenistan "is confident in the path chosen by Saparmurat Niyazov the Great and will rigorously meet the commitments he made." Berdimuhamedov then was shown addressing his audience, strikingly, in Russian -- vice his usual Turkmen -- "Let the foreign consumers of our oil and gas not worry. Turkmenistan will strictly follow its commitments, and no events can affect our supply. Tight control is established in this regard by the government. A stable and peaceful situation is maintained in Turkmenistan, and all government agencies function efficiently. Turkmenistan upholds the reputation of a trustworthy and

business-like partner and is open to all interested to invest. We will see to that."

Comment

¶ 9. (SBU) Gazprom has every reason to expect its business position in Turkmenistan's gas sector to remain unchanged. For the Government of Turkmenistan, in turn, stability of its relationship with Gazprom will be an integral part of confirming its own authority and legitimacy. Any misstep or clash in this sphere would invite disaster for a post-Niyazov administration. Hence, the instant public reassurances from Berdimuhamedov and other senior voices that the leadership succession will not mean any change in business arrangements, i.e., the fact and the terms of the current Gazprom deal. Gazprom's own quick gesture in kind was to send Gazprom Chief Executive Officer Alexei Miller to Niyazov's December 24 funeral. End Comment.

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